Bloomberg News, January 25, 2005

The U.S. sugar industry has had a friend in the government since 1789, when Treasury Secretary Alexander Hamilton pushed through a tariff on imports. Now, two centuries of protection are in jeopardy.

Republican victories in the congressional and presidential campaigns, pressure from trading partners, and a new Commerce secretary with a history of opposing the sugar lobby are all working against the $4 billion industry. They are taking particular aim at the system of import quotas and production restraints that forces U.S. consumers to pay twice as much for sugar as the open-market price.

``With increased Republican majorities, arguments that the private sector should govern our decisions have more sway,'' says Representative Mark Kirk of Illinois, who founded the 16-member Congressional Caucus for Sugar Reform last month. ``In private, everyone trashes the sugar lobby in the administration.''

Kirk, a House Appropriations Committee member, aims to strip the U.S. Department of Agriculture of the money it needs to administer the 70-year-old price-support system. He wants to do away with the quotas by supporting trade agreements, such as one with Central American nations that erode the protection, and inserting language in a bill covering farm subsidies.

Out for Themselves

Kirk and his allies are backed by lobbyists for candy makers such as McLean, Virginia-based Mars Inc. and Hershey Foods Corp. of Hershey, Pennsylvania, and soft-drink makers such as Atlanta- based Coca-Cola Co.

Jack Roney, director of policy analysis with the Washington- based American Sugar Alliance, says the demands from candy and soft-drink companies are nothing new, and he warns that an end to quotas would help those companies, not consumers.

``It's very obvious what their incentive is, which is to increase their profits,'' he says. Support for the sugar program among lawmakers is growing, not waning, he added.

Roney's group is an association of growers, refiners and companies such as Decatur, Illinois-based Archer Daniels Midland Co., which processes the high fructose corn syrup that Coca-Cola uses instead of sugar.

The U.S. government restricts imports through a series of tariff quotas, and also limits the amount of sugar allowed in the domestic market through production controls, called marketing allotments. On top of that, sugar producers are offered a guaranteed loan of 18 cents per pound for raw cane sugar and 22 cents for refined beet sugar. If prices fail to rise, the processors keep the loan and turn the crop over to the government.

Sweet Deal

The sugar program costs U.S. consumers up to $1.9 billion a year through higher prices, according to a 2000 Government Accountability Office report. The world price for sugar is up 53 percent in the past year, trading at 8.9 cents per pound on Jan. 21 in New York. The nonpartisan Congressional Budget Office estimates that the price-support system, which hasn't been used in four years, will pay $2.1 billion during the next 10 years, or an average of $351,170 for each of the 5,980 sugar-beet and sugar- cane farms listed by the U.S. Department of Agriculture in a 2002 census.

Sugar's political power comes from its geographic breadth. It is grown in a wide swath of the U.S., grouping cane growers in South Florida, Louisiana, Texas and Hawaii with sugar-beet growers from the Red River Valley of Minnesota and North Dakota as well as in 10 other states.

`Sensitive Product'

Ending sugar quotas ``would be a terrible thing to a lot of Florida farmers and a lot of Florida workers who depend on the sugar industry for their jobs,'' Florida's freshman Senator Mel Martinez said in an interview.

That clout has allowed the sugar lobby to turn back previous efforts to strip it of protection. The Democratic-controlled Congress abolished the quotas in 1974; they were resurrected by Republican President Ronald Reagan in 1982. In 1996, a Republican initiative to end the sugar program failed by a 217-208 vote in the U.S. House. And just last year, the sugar lobby successfully fought to exclude the commodity from a U.S.-Australia trade agreement after 30 lawmakers wrote to U.S. Trade Representative Robert Zoellick.

``Sugar is a sensitive product for the U.S., and we handle it with care,'' says Richard Mills, a spokesman for Zoellick.

Adding to its political power, growers and refiners such as Clewiston, Florida-based U.S. Sugar Corp. and West Palm Beach- based Florida Crystals Corp. gave more money to members of the Senate and House of Representatives during the 2004 election -- $2.4 million -- than any of the 46 agricultural groups tracked by Washington-based PoliticalMoneyLine, including tobacco.

Politics Changing

Florida Crystals President Jose ``Pepe'' Fanjul raised at least $200,000 for the campaign of President George W. Bush, earning him the designation of ``Ranger,'' a top-tier donor.

Ten members of the Fanjul family of Palm Beach, Florida, gave a combined $427,000 to federal candidates, parties and political committees during the 2004 election, according to Federal Election Commission records.

The political dynamics are changing, though. Among other things, one of sugar's most potent champions, Democratic Senator John Breaux of Louisiana, retired. While he was a member of the Senate Finance Committee, Breaux co-chaired the Senate Sweetener Caucus, which supports the sugar program. Breaux is now at Patton Boggs LLP, the Washington lobbying firm.

Its biggest client: Mars.

`Worst' Protectionism

``I can argue it either way,'' Breaux says. ``I'm in a different position now. My obligation professionally is to represent my clients.''

Senator Richard Durbin, an Illinois Democrat who voted to keep sugar quotas and price supports in the past, is now in favor of abolishing the program. He supported the sugar program as a way to keep high fructose corn syrup prices high. Over 20 years, the link between the two commodities was broken as corn syrup gained its own market, and he switched his position last year.

``The sugar program depended on congressmen like me from states that grew corn,'' Durbin says. Now, he says he plans to be a leader in the effort to eliminate the sugar quotas.

Meanwhile, the incoming Commerce secretary, Carlos Gutierrez, pushed to end quotas and price supports as chief executive officer of Battle Creek, Michigan-based Kellogg Co. In congressional testimony in June, when Gutierrez was still running the company, George Franklin, its vice president for worldwide government relations, called the sugar program ``truly one of the worst forms of protectionism.''

Showdown

Gutierrez, in his Jan. 5 confirmation hearing, pledged to be ``very objective'' in assessing the sugar industry, and offered to recuse himself from any sugar deliberations.

The sugar lobby and its opponents face a showdown next month as Congress begins debate on approving the Central American Free Trade Agreement. The American Sugar Alliance opposes Cafta, saying the agreement with six Central American and Caribbean nations, which increases sugar imports from those countries by 100,000 metric tons a year, is a prelude to future trade agreements that will do away with quotas.

``Lined up behind Cafta are 21 other sugar-exporting nations,'' Roney says. Brazil, which last year won a World Trade Organization complaint against the European Union to reduce its $1.4 billion in sugar subsidies, is among those pushing the U.S. to end its quotas. Brazil is the biggest sugar grower.

The fight against sugar protection is part of a larger push by U.S. food processors, retailers and restaurants such as McDonald's Corp. and Kellogg to abolish food tariffs, including those on orange juice, dairy products and peanuts. The companies say the tariffs raise their costs.

Comprehensive Action

More than 50 lobbyists from grocery stores, chain restaurants and trade associations met on Jan. 11 in Washington to plan a strategy. Clayton Yeutter, a former U.S. Trade Representative who heads the group, says it's the first time consumers of agriculture products are taking action ``in a comprehensive way'' on trade issues.

Yeutter says the members of his coalition have devised a divide-and-conquer strategy, aiming to exploit differences between farm groups that see free-trade agreements as an opportunity to export more, such as soybean growers, and those that fear greater imports.

``Every time we start to take issues off the table, other countries run to exempt their products, too'' Yeutter says. ``That costs the U.S. far more than we gain.''